

CHAPTER 8**Completing the Accounting Cycle****SECTION 8.1 REVIEW QUESTIONS** (page 275)

1. *Year-end financial statements are superior to interim financial statements because all accounts are brought up to date, all late transactions are taken into account, all calculations have been made correctly, and all accounting principles and standards have been followed.*
2. *The aim of accounting principles and standards is to produce financial statements that are theoretically and mathematically accurate.*
3. *According to the International Financial Reporting Standards, a financial statement must be relevant, reliable, and comparable.*
4. *Accrual accounting is the practice of recording revenues and expenses when they happen regardless of whether cash is received or paid.*
5. *Dividing financial reporting into equal periods of time allows businesses to compare current financial statements to previous ones.*
6. *An adjusting entry is a journal entry that assigns an amount of revenue or expense to the appropriate accounting period and brings a related balance sheet account to its true value.*
7. *Adjusting entries are necessary because they bring the accounts to their true value. This means the financial statements for that period will be accurate and up-to-date.*
8. *Accounts are allowed to be inexact between statement dates because it too time consuming and expensive to keep the accounts exact all the time.*
9. *From the income statement perspective, adjusting entries allow the correct expenses to be subtracted from revenue, which produces a correct net income.*
10. *From the balance sheet perspective, the chief aim of adjusting entries is to accurately state assets, liabilities, and equity.*
11. *Knowledge of the income statement and balance sheet perspectives is helpful when learning about adjusting entries because every adjusting entry will affect at least one income statement account and at least one balance sheet account.*
12. *To determine the balance of the Supplies account at the end of the fiscal period, take an inventory of the supplies that remain in the business and then calculate their dollar value.*
13. *A prepaid expense is an expense paid for in advance that will be used up in the future.*
14. *The most common prepaid expense is insurance.*

SECTION 8.1 REVIEW QUESTIONS (continued)

15. *Prepaid expenses are listed under current assets on the balance sheet.*
16. *Prepaid Insurance is debited when insurance is paid for in advance.*
17. *To determine the balance of Prepaid Insurance at the end of the fiscal period, calculate the amount of insurance used during the fiscal period and subtract it from the total amount paid. This will give you the amount of prepaid insurance that has yet to be used.*
18. *A late-arriving purchase invoice is an invoice that arrived in the current fiscal period but belongs to the previous fiscal period.*
19. *The matching principle states that expenses are to be recognized in the same fiscal period as the revenue that they helped to earn.*
20. *During the two to three weeks after year-end, the accounting department examines all purchase invoices in order to find the ones that affect the fiscal period that just ended. These are the late-arriving purchase invoices.*
21. *Accounts Payable is credited when preparing the adjusting entry for late-arriving invoices.*
22. *Unearned Revenue is a liability account. This classification makes sense because a customer has a claim on the company's funds until the company provides the promised services that the customer bought.*

SECTION 8.1 EXERCISES (page 276)**Exercise I, p. 276**

Supplies			
	Unadjusted Balance	Inventory Count	Supplies Expense
1.	\$ 300	\$100	<i>\$200</i>
2.	\$1 400	\$650	<i>\$750</i>
3.	<i>\$ 425</i>	\$175	\$250
4.	\$ 950	<i>\$210</i>	\$740

SECTION 8.1 EXERCISES (continued)**Exercise 1, p. 276** (continued)

Prepaid Insurance			
	Unadjusted Balance	Year-end Prepaid Calculation	Insurance Expense
1.	\$ 875	\$325	<i>\$ 550</i>
2.	\$9 600	\$800	<i>\$8800</i>
3.	\$ 925	<i>\$610</i>	\$ 315
4.	<i>\$ 785</i>	\$410	\$ 375

Exercise 2, p. 277

A.

	Balance Sheet Adjustments		Income Statement Adjustments	
	Supplies		Supplies Expense	
1.	Dr	Cr	Dr	Cr
	Dec. 31, 20–3	5 050		
			<i>3 600</i>	
		<u>1 450</u>		
2.	Prepaid Insurance		Insurance Expense	
	Dr	Cr	Dr	Cr
	Dec. 31, 20–3	2 100		
			<i>1 050</i>	
		<u>1 050</u>		
3.	Accounts Payable		Advertising Expense	
	Dr	Cr	Dr	Cr
			<i>10 000</i>	
4.	Unearned Revenue		Fees Earned	
	Dr	Cr	Dr	Cr
			Dec. 15, 20–3	20 000
		<i>14 000</i>	<i>14 000</i>	
				<u>6 000</u>

SECTION 8.1 EXERCISES (continued)**Exercise 2, p. 277** (continued)**B.****GENERAL JOURNAL****PAGE**

DATE	PARTICULARS	P.R.	DEBIT	CREDIT
²⁰⁻³ <i>Dec.</i> 31	<i>Supplies Expense</i>		3 6 0 0 –	
	<i>Supplies</i>			3 6 0 0 –
	<i>To adjust for the inventory count of \$1450</i>			
31	<i>Insurance Expense</i>		1 0 5 0 –	
	<i>Prepaid Insurance</i>			1 0 5 0 –
	<i>To adjust for six months of expired insurance</i>			
31	<i>Advertising Expense</i>		10 0 0 0 –	
	<i>Accounts Payable</i>			10 0 0 0 –
	<i>To record a 20-3 invoice that arrived in 20-4</i>			
31	<i>Fees Earned</i>		14 0 0 0 –	
	<i>Unearned Revenue</i>			14 0 0 0 –
	<i>To adjust for the cash advances received</i>			

C.

Adjustment Omission	Assets	Liabilities	Net Income
1. Supplies	<i>overstated</i>	<i>correctly stated</i>	<i>overstated</i>
2. Insurance	<i>overstated</i>	<i>correctly stated</i>	<i>overstated</i>
3. Late Invoices	<i>correctly stated</i>	<i>understated</i>	<i>overstated</i>
4. Unearned Revenue	<i>correctly stated</i>	<i>understated</i>	<i>overstated</i>

SECTION 8.1 EXERCISES (continued)**Exercise 3, p. 277**

Inventory Item	Quantity	Unit Price	Value
Rubber bands	3 boxes	\$ 1.50 per box	\$ 4 50
Envelopes #8	10 boxes	32.00 per box	320 00
Envelopes #10	4 1/2 boxes	36.00 per box	162 00
Envelopes, manila	2 boxes	28.00 per box	56 00
Printer cartridges	2 boxes	31.20 per box	62 40
Letterhead	10M sheets	22.50 per M	225 00
Copy paper	4M sheets	10.00 per M	40 00
File folders	2 boxes	6.00 per box	12 00
Paper clips	12 boxes	1.50 per box	18 00
Staples	15 boxes	4.10 per box	61 50
Pencils, regular	4 dozen	5.50 per dozen	22 00
Pencils, red	2 dozen	6.10 per dozen	12 20
Total			\$995 60

Supplies		Supplies Expense	
Dr	Cr	Dr	Cr
2 018.00	1 022.40	1 022.40	
<u>995.60</u>			

Exercise 4, p. 278A. $\$648 \times 7 \div 12 = \378 *The prepaid insurance is \$378 as of December 31, 20-1.*

B.

Year	Insurance Expense	Prepaid Insurance (Dec. 31)
20-1	$\$648 \times 5 \div 12 = \270	$\$648 \times 7 \div 12 = \378
20-2	$\$648 \times 7 \div 12 = \378	0
Total	\$648	\$378

SECTION 8.1 EXERCISES (continued)**Exercise 5, p. 278**

A.

	Total number of months of insurance used as of the designated year-end	Total number of months of insurance unused as of the designated year-end	Value of the prepaid insurance at the designated year-end
a.	3	9	$\$360 \times 9 \div 12 = \270
b.	15	9	$\$360 \times 9 \div 24 = \135
c.	1	11	$\$456 \times 11 \div 12 = \418
d.	10	2	$\$720 \times 2 \div 12 = \120
e.	1	11	$\$900 \times 11 \div 12 = \825
f.	18	6	$\$1080 \times 6 \div 24 = \270

B.

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	DATE	PARTICULARS	P.R.	DEBIT	CREDIT
a.	²⁰⁻⁴ Dec. 31	Insurance Expense		9 0 -	
		Prepaid Insurance			9 0 -
		($360 \times 3 \div 12$)			
b.	²⁰⁻⁵ Dec. 31	Insurance Expense		2 2 5 -	
		Prepaid Insurance			2 2 5 -
		($360 \times 12 \div 24$)			
c.	²⁰⁻⁴ Oct. 31	Insurance Expense		3 8 -	
		Prepaid Insurance			3 8 -
		($456 \times 1 \div 12$)			
d.	²⁰⁻¹ Dec. 31	Insurance Expense		6 0 0 -	
		Prepaid Insurance			6 0 0 -
		($720 \times 10 \div 12$)			

SECTION 8.1 EXERCISES (continued)**Exercise 5, p. 278** (continued)

B.

GENERAL JOURNAL										PAGE			
DATE		PARTICULARS	P.R.	DEBIT				CREDIT					
<i>Jun.</i> ²⁰⁻⁶	30	<i>Insurance Expense</i>			7	5	–						
		<i>Prepaid Insurance</i>							7	5	–		
		<i>(900 × 1 ÷ 12)</i>											
<i>Dec.</i> ²⁰⁻⁵	31	<i>Insurance Expense</i>			8	1	0	–					
		<i>Prepaid Insurance</i>							8	1	0	–	
		<i>(1080 × 12 ÷ 24)</i>											

Exercise 6, p. 278

A.

Prepaid Licenses		Bank	
Dr	Cr	Dr	Cr
<i>Jan. 1, 20–1</i>	720	<i>Jan. 1, 20–1</i>	720

B. $\$720 \times 3 \div 12 = \180 *The prepaid license was \$180 as of September 30, 20–1.*C. $\$720 \times 9 \div 12 = \540 *The truck license expense was \$540 as of September 30, 20–1.*

D.

Prepaid Licenses		Truck License Expense	
Dr	Cr	Dr	Cr
	720		
<i>Sep. 30, 20–1</i>		<i>Sep. 30, 20–1</i>	540
	540		
<i>Sep. 30, 20–1</i>	180	<i>Sep. 30, 20–1</i>	540

SECTION 8.1 EXERCISES (continued)**Exercise 6, p. 278** (continued)**E.**

Prepaid Licenses		Bank	
Dr	Cr	Dr	Cr
	180		
<i>Jan. 1, 20-2</i>	<u>720</u>	<i>Jan. 1, 20-2</i>	<i>720</i>
<i>Jan. 1, 20-2</i>	900		

F. $\$900 \times 3 \div 15 = \180 *The prepaid license was \$180 as of September 30, 20-2.***G.**

Prepaid Licenses		Truck License Expense	
Dr	Cr	Dr	Cr
	900		
<i>Sep. 30, 20-2</i>	<i>720</i>	<i>Sep. 30, 20-2</i>	<u>720</u>
<i>Sep. 30, 20-2</i>	<u>180</u>	<i>Sep. 30, 20-2</i>	720

SECTION 8.2 REVIEW QUESTIONS (page 288)

Note: After the first printing of the student textbook, question 2 was deleted and the questions renumbered. If working with the first printing, answer questions 1, 3, 4, and 5 only. All other printings will list the four correct questions only.

- Adjusting entries are first recorded in the worksheet.*
- The process of extending the worksheet involves assigning each line on the worksheet to one of the last four columns. Evaluate each item in the first four columns. Add or subtract the adjustments to arrive at a single figure. Then transfer this figure to the appropriate Income Statement or the Balance Sheet column.*
- Adjusting entries must be journalized and posted to update the ledger accounts.*
- The last day of the fiscal period is the date used for journalizing the adjusting entries.*

SECTION 8.2 EXERCISES (page 288)
Exercise 1, p. 288

A.

Year Ended Dec. 31, 20–4

Worksheet**P. Tang and Company**

ACCOUNTS	TRIAL BALANCE					ADJUSTMENTS					INCOME STATEMENT					BALANCE SHEET																							
	Dr			Cr		Dr			Cr		Dr			Cr		Dr			Cr																				
Bank	1	9	0	0	–													1	9	0	0	–																	
Accounts Receivable	19	5	0	0	–													19	5	0	0	–																	
Supplies	1	0	0	0	–					①	3	0	0	–					7	0	0	–																	
Prepaid Insurance	1	6	6	8	–					②	6	9	5	–					9	7	3	–																	
Equipment	22	0	0	0	–													22	0	0	0	–																	
Automobile	21	0	0	0	–													21	0	0	0	–																	
Accounts Payable						4	3	6	0	–			③	4	7	5	–							4	8	3	5	–											
Bank Loan						5	0	0	0	–														5	0	0	0	–											
HST Payable						2	3	2	5	–														2	3	2	5	–											
HST Recoverable		9	5	0	–																		9	5	0	–													
P. Tang, Capital						54	0	5	8	–															54	0	5	8	–										
P. Tang, Drawings	15	0	0	0	–																		15	0	0	0	–												
Fees Earned						69	9	2	5	–							69	9	2	5	–																		
Car Expense	3	8	0	0	–					③	2	7	5	–			4	0	7	5	–																		
General Expense	2	9	5	0	–					③	2	0	0	–			3	1	5	0	–																		
Miscellaneous Expense		7	0	0	–													7	0	0	–																		
Rent Expense	17	2	0	0	–												17	2	0	0	–																		
Wages Expense	28	0	0	0	–												28	0	0	0	–																		
	135	6	6	8	–	135	6	6	8	–																													
Supplies Expense										①	3	0	0	–			3	0	0	–																			
Insurance Expense										②	6	9	5	–			6	9	5	–																			
										1	4	7	0	–	1	4	7	0	–	54	1	2	0	–	69	9	2	5	–	82	0	2	3	–	66	2	1	8	–
Net Income																	15	8	0	5	–									15	8	0	5	–					
																	69	9	2	5	–	69	9	2	5	–	82	0	2	3	–	82	0	2	3	–			

SECTION 8.2 EXERCISES (continued)**Exercise I, p. 288** (continued)

B. (continued)

*P. TANG AND COMPANY**BALANCE SHEET**DECEMBER 31, 20-4*

<i>ASSETS</i>																				
<i>Current Assets</i>																				
<i>Bank</i>																				
<i>Accounts Receivable</i>																				
<i>Supplies</i>																				
<i>Prepaid Insurance</i>																				
<i>Total Current Assets</i>																				
<i>Long-Term Assets</i>																				
<i>Equipment</i>																				
<i>Automobile</i>																				
<i>Total Long-Term Assets</i>																				
<i>Total Assets</i>																				
<i>LIABILITIES</i>																				
<i>Accounts Payable</i>																				
<i>Bank Loan</i>																				
<i>HST Payable</i>																				
<i>Less: HST Recoverable</i>																				
<i>HST Owed</i>																				
<i>Total Liabilities</i>																				
<i>OWNER'S EQUITY</i>																				
<i>P. Tang, Capital</i>																				
<i>Balance January 1</i>																				
<i>Net Income</i>																				
<i>Less: Drawings</i>																				
<i>Increase in Capital</i>																				
<i>Balance December 31</i>																				
<i>Total Liabilities and Equity</i>																				

SECTION 8.2 EXERCISES (continued)
Exercise 2, p. 289
A.

Mission Marketing **Worksheet** **Year Ended Dec. 31, 20–3**

ACCOUNTS	TRIAL BALANCE					ADJUSTMENTS					INCOME STATEMENT					BALANCE SHEET																							
	Dr		Cr			Dr		Cr			Dr		Cr			Dr		Cr																					
Bank	2	4	9	0	–												2	4	9	0	–																		
Accounts Receivable	21	6	0	0	–												21	6	0	0	–																		
Supplies	4	2	5	0	–					①	3	3	0	0	–			9	5	0	–																		
Prepaid Insurance	1	2	5	4	–					②	5	7	4	–				6	8	0	–																		
Equipment	69	2	0	0	–												69	2	0	0	–																		
Automobile	44	2	0	0	–												44	2	0	0	–																		
Accounts Payable						6	5	6	5	–		④	5	1	5	–							7	0	8	0	–												
HST Payable						7	8	0	–														7	8	0	–													
HST Recoverable		5	1	0	–													5	1	0	–																		
C. Ans, Capital						151	2	7	5	–													151	2	7	5	–												
C. Ans, Drawings	20	0	0	0	–													20	0	0	0	–																	
Fees Earned						135	7	0	0	–	③	2	0	0	0	–			133	7	0	0	–																
Car Expense	13	2	1	4	–					④	1	5	0	–			13	3	6	4	–																		
Miscellaneous Expense	1	5	6	3	–					④	5	0	–				1	6	1	3	–																		
Rent Expense	18	0	0	0	–												18	0	0	0	–																		
Utilities Expense	2	8	0	0	–					④	3	1	5	–			3	1	1	5	–																		
Wages Expense	95	2	3	9	–												95	2	3	9	–																		
	294	3	2	0	–	294	3	2	0	–																													
Supplies Expense										①	3	3	0	0	–		3	3	0	0	–																		
Insurance Expense										②	5	7	4	–			5	7	4	–																			
Unearned Revenue											③	2	0	0	0	–							2	0	0	0	–												
										6	3	8	9	–	6	3	8	9	–	135	2	0	5	–	133	7	0	0	–	159	6	3	0	–	161	1	3	5	–
Net Loss																		1	5	0	5	–		1	5	0	5	–											
																	135	2	0	5	–		135	2	0	5	–		161	1	3	5	–	161	1	3	5	–	

SECTION 8.2 EXERCISES (continued)**Exercise 2, p. 289** (continued)

B. (continued)

*MISSION MARKETING**BALANCE SHEET**DECEMBER 31, 20–3*

ASSETS																							
Current Assets																							
Bank										\$	2	4	9	0	–								
Accounts Receivable											21	6	0	0	–								
Supplies												9	5	0	–								
Prepaid Insurance												6	8	0	–								
Total Current Assets																	\$	25	7	2	0	–	
Long-Term Assets																							
Equipment										\$	69	2	0	0	–								
Automobile											44	2	0	0	–								
Total Long-Term Assets																		113	4	0	0	–	
Total Assets																		\$139	1	2	0	–	
LIABILITIES																							
Accounts Payable										\$	7	0	8	0	–								
Unearned Revenue											2	0	0	0	–								
HST Payable	\$	7	8	0	–																		
Less: HST Recoverable		5	1	0	–																		
HST Owed											2	7	0	–									
Total Liabilities																		\$	9	3	5	0	–
OWNER'S EQUITY																							
C. Ans, Capital																							
Balance January 1										\$151	2	7	5	–									
Net Loss	\$	(1	5	0	5	–)																	
Less: Drawings		(20	0	0	0	–)																	
Decrease in Capital											(21	5	0	5	–)								
Balance December 31																		129	7	7	0	–	
Total Liabilities and Equity																		\$139	1	2	0	–	

SECTION 8.2 EXERCISES (continued)**Exercise 2, p. 289** (continued)

- C. *Although you have a large capital account balance, there are several problems this year that resulted in a net loss. One issue is the large expenses you had for the automobile, wages, and rent. Wages are especially high compared to your fees earned. You should try to reduce these expenses in the future in order to make your company profitable.*

SECTION 8.3 REVIEW QUESTIONS (page 297)

1. *Adjusting entries must be journalized and posted before completing the closing procedures because these steps ensure that ledger account balances match the amounts that appear on the year-end financial statements.*
2. *A real account is an account whose balance continues into the next fiscal period.*
3. *Another name for a real account is a permanent account.*
4. *A nominal account is an account whose balance relates to only one fiscal period. The account balance does not continue into the next fiscal period.*
5. *Nominal accounts are also known as temporary accounts.*
6. *All accounts in the equity section of the ledger, except Capital, are nominal accounts.*
7. *Closing an account means to make the account have a nil balance.*
8. *For Global Logistics, the accounting software reset the income statement accounts to zero, reset the drawings account to zero, and updated the capital account balance by adding net income and subtracting drawings.*
9. *All the information for the closing journal entries can be found on the worksheet.*
10. *The first closing journal entry brings the revenue account(s) to zero.*
11. *The Income Summary account is a temporary equity account that accountants use to record debit and credit amounts during the closing process.*
12. *The information for the second closing entry is obtained from the Income Statement debits column of the worksheet. Each expense amount listed in this column becomes a credit in the second closing entry. The subtotal in the Income Statement debits column is used as the total that is debited to the Income Summary account.*
13. *Income Summary is a good name for the ledger account used in closing because it subtracts Total Expenses from Total Revenue to produce Net Income.*
14. *Right before it is closed out, the balance in the Income Summary account represents the net income or net loss.*
15. *The purpose of the post-closing trial balance is to make sure the ledger is still in balance after all the adjusting and closing entries have been made.*

SECTION 8.3 REVIEW QUESTIONS (continued)

16. *Four ways computers have modified the accounting cycle are as follows. Steps 2 to 4 in the accounting cycle occur virtually at the same time with a computer. Interim financial statements with unadjusted balances can be printed at any time. The worksheet is used less frequently. Although the outcomes of the closing procedures are needed in a computerized accounting system, actual closing journal entries are for the most part unnecessary.*

SECTION 8.3 EXERCISES (page 298)**Exercise 1, p. 298**

The nominal accounts are: Advertising Expense; Bank Charges Expense; Car Expense; Delivery Expense; Sylvia Magill, Drawings; Insurance Expense; Legal Expense; Postage Expense; Rent Expense; Revenue from Commissions; Salaries Expense; Sales; Supplies Expense; Telephone Expense; Wages Expense

Exercise 2, p. 298

- A. Accounting is _____ *cyclical* _____ in nature.
- B. The _____ *time-period concept* _____ states that financial reporting is done in equal periods of time.
- C. Assets and liability accounts are considered to be _____ *real* _____ accounts.
- D. _____ *Real accounts* _____ have their balances continue on into the succeeding fiscal period.
- E. Revenue expense, and drawing accounts are considered to be _____ *nominal* _____ accounts.
- F. The balances in _____ *nominal accounts* _____ do not continue into the _____ *next* _____ fiscal period.
- G. Another name for nominal account is a _____ *temporary equity account* _____.
- H. Nominal accounts begin each fiscal period with _____ *a nil balance* _____.
- I. The process of removing the “old” balances from the nominal accounts is known as _____ *closing the accounts* _____.
- J. _____ *Closing an account* _____ means to cause it to have no balance.
- K. During a fiscal period, the Capital account shows _____ *the balance at the beginning of the period* _____.
- L. Changes in equity during a fiscal period (except for additional investments by the owner) are contained in _____ *revenue, expense, and drawings* _____ accounts.
- M. At the end of the fiscal period, the ledger is brought up to date by _____ *journalizing and posting the adjustment entries* _____.
- N. One of the final steps in the accounting cycle is to bring the Capital account _____ *up to date* _____ and to _____ *close out* _____ the nominal accounts.
- O. The final step in the accounting cycle is _____ *the post-closing trial balance* _____.

SECTION 8.3 EXERCISES (continued)**Exercise 3, p. 299**

Indicate whether each of the following statements is true or false by entering a T or an F in the space provided. Explain the reason for each F response in the space provided.

- | | |
|--|----------|
| A. Journalizing and posting the adjusting and closing entries is a routine task that can be done by any knowledgeable accounting clerk. | <u>F</u> |
| B. All of the data required to journalize the adjusting and closing entries can be found on the worksheet. | <u>T</u> |
| C. It can be assumed that all adjustments have been thought of once the worksheet is completed. | <u>T</u> |
| D. The adjusting entries must be journalized and posted to bring the ledger into agreement with the figures on the financial statements. | <u>T</u> |
| E. An explanation is needed for each individual adjusting entry being journalized. | <u>F</u> |
| F. The adjusting and closing entries in the journal are dated as of the end of the fiscal period. | <u>T</u> |
| G. The closing entries can be processed only by using the four-step method. | <u>F</u> |
| H. The figures for the first closing entry are taken from the income statement section, debit column, of the work sheet. | <u>F</u> |
| I. Since revenue accounts have debit balances, credit entries are needed to close them out. | <u>F</u> |
| J. The second closing entry transfers the balances in the expense accounts to the Income Summary account. | <u>T</u> |
| K. When the adjusting entries and the first two closing entries are journalized and posted, all but three of the accounts in the equity section of the ledger will have nil balances. | <u>T</u> |
| L. A loss has occurred if the Income Summary account as a credit balance before it is closed out. | <u>F</u> |
| M. The first two entries in the Income Summary account are the same as the subtotals of the income statement section of the worksheet. | <u>T</u> |
| N. The Income Summary account is not closed out if a loss occurs. | <u>F</u> |

Explanation for F Responses

- A. Adjusting and closing entries are the responsibility of senior staff.*
- E. For the adjusting entries, only a heading is needed.*
- G. The four-step method is a common method but there are others.*
- H. The first closing entry figure comes from the credit column of the Income Statement section of the worksheet.*
- I. Revenue accounts have credit balances and need debit entries to close them out.*
- L. A loss has occurred if the Income Summary account has a debit balance before it is closed out.*
- N. If a loss occurs, the Income Summary account is still closed out.*

SECTION 8.3 EXERCISES (continued)**Exercise 4, p. 300****GENERAL JOURNAL****PAGE**

DATE	PARTICULARS	P.R.	DEBIT					CREDIT				
	<u>Adjusting Entries</u>											
²⁰⁻³ Dec.	31 <i>Supplies Expense</i>		7	2	5	0	–					
	<i>Supplies</i>							7	2	5	0	–
	31 <i>Insurance Expense</i>		4	0	5	0	–					
	<i>Prepaid Insurance</i>							4	0	5	0	–
	31 <i>Bond Interest Receivable</i>		2	5	0	0	–					
	<i>Interest Earned</i>							2	5	0	0	–
	<u>Closing Entries</u>											
Dec.	31 <i>Fees Earned</i>		220	3	7	4	–					
	<i>Interest Earned</i>		10	0	0	0	–					
	<i>Income Summary</i>							230	3	7	4	–
	31 <i>Income Summary</i>		195	9	2	4	50					
	<i>Bank Charges Expense</i>							1	7	0	–	
	<i>Miscellaneous Expense</i>							1	4	3	6	50
	<i>Rent Expense</i>							30	0	0	0	–
	<i>Telephone Expense</i>							2	7	5	9	–
	<i>Utilities Expense</i>							2	9	5	7	–
	<i>Wages and Salaries Expense</i>							147	3	0	2	–
	<i>Supplies Expense</i>							7	2	5	0	–
	<i>Insurance Expense</i>							4	0	5	0	–
	31 <i>Income Summary</i>		34	4	4	9	50					
	<i>E. Santala, Capital</i>							34	4	4	9	50
	31 <i>E. Santala, Capital</i>		80	0	0	0	–					
	<i>E. Santala, Drawings</i>							80	0	0	0	–

SECTION 8.3 EXERCISES (continued)**Exercise 5, p. 300**

- A. *There are two adjustments to the Supplies account because the first is due to a late invoice (the debit) and the second is needed to record the adjustment for the supplies inventory (the credit).*

B.

GENERAL JOURNAL**PAGE**

DATE	PARTICULARS	P.R.	DEBIT	CREDIT
	<u>Adjusting Entries</u>			
²⁰⁻⁶ Dec. 31	Supplies	✓	8 0 0 -	
	Accounts Payable	✓		8 0 0 -
31	Supplies Expense	✓	1 0 5 5 -	
	Supplies	✓		1 0 5 5 -
31	Insurance Expense	✓	1 6 2 5 -	
	Prepaid Insurance	✓		1 6 2 5 -
	<u>Closing Entries</u>			
31	Revenue	✓	98 3 7 0 -	
	Income Summary	✓		98 3 7 0 -
31	Income Summary	✓	46 6 8 2 -	
	Advertising Expense	✓		1 2 0 0 -
	Bank Charges Expense	✓		9 6 -
	Miscellaneous Expense	✓		1 9 0 2 -
	Rent Expense	✓		6 0 0 0 -
	Supplies Expense	✓		8 0 0 5 -
	Utilities Expense	✓		2 1 0 4 -
	Wages Expense	✓		25 7 5 0 -
	Insurance Expense	✓		1 6 2 5 -
31	Income Summary	✓	51 6 8 8 -	
	R. Tompko, Capital	✓		51 6 8 8 -
31	R. Tompko, Capital	✓	42 0 0 0 -	
	R. Tompko, Drawings	✓		42 0 0 0 -

SECTION 8.3 EXERCISES (continued)**Exercise 5, p. 300** (continued)

C.

GENERAL LEDGER

Bank <hr/> 790 <hr/>	Supplies <hr/> 2 755 1 005 (2) (1) 800 <u>2 500</u> <hr/>	Prepaid Insurance <hr/> 2 450 1 625 (3) <u>825</u> <hr/>
Equipment <hr/> 17 005 <hr/>	Accounts Payable <hr/> 1 075 800 (1) <u>1 875</u> <hr/>	HST Payable <hr/> 580 <hr/>
HST Recoverable <hr/> 365 <hr/>	R. Tompko, Capital <hr/> 42 000 9 342 51 688 <u>19 030</u> <hr/>	R. Tompko, Drawings <hr/> 42 000 42 000 <hr/> 0 <hr/>
Revenue <hr/> 98 370 98 370 <u>0</u> <hr/>	Advertising Expense <hr/> 1 200 1 200 <u>0</u> <hr/>	Bank Charges Expense <hr/> 96 96 <u>0</u> <hr/>
Supplies Expense <hr/> 6 950 8 005 (2) 1 055 <u>0</u> <hr/>	Miscellaneous Expense <hr/> 1 902 1 902 <u>0</u> <hr/>	Rent Expense <hr/> 6 000 6 000 <hr/> 0 <hr/>
Utilities Expense <hr/> 2 104 2 104 <u>0</u> <hr/>	Wages Expense <hr/> 25 750 25 750 <u>0</u> <hr/>	Insurance Expense <hr/> (3) 1 625 1 625 <u>0</u> <hr/>
	Income Summary <hr/> 46 682 98 370 51 688 <u>0</u> <hr/>	

SECTION 8.3 EXERCISES (continued)**Exercise 5, p. 300** (continued)**D.***GOLDEN TRESSES HAIR STYLISTS**POST-CLOSING TRIAL BALANCE**DECEMBER 31, 20–*

<i>Bank</i>		7	9	0	–					
<i>Supplies</i>	2	5	0	0	–					
<i>Prepaid Insurance</i>		8	2	5	–					
<i>Equipment</i>	17	0	0	5	–					
<i>Accounts Payable</i>						1	8	7	5	–
<i>HST Payable</i>							5	8	0	–
<i>HST Recoverable</i>		3	6	5	–					
<i>R. Tompko, Capital</i>						19	0	3	0	–
	21	4	8	5	–	21	4	8	5	–

SECTION 8.4 REVIEW QUESTIONS (page 311)

- A long-term asset is an asset the company plans to keep and use to generate income for many years*
- Some accountants avoid using the term fixed assets because it implies the assets do not change, which gives the wrong impression.*
- Long-term assets are also called long-lived assets, capital equipment, plant and equipment, and property, plant, and equipment.*
- Depreciation is a means of allocating the cost of a long-term asset over its useful, productive life.*
- A precise calculation of depreciation cannot be made until the end of the asset's useful life because that is when you can determine the salvage value of the asset and how long it lasted.*
- The simplest depreciation method is the straight-line method of depreciation.*
- The formula for calculating straight-line depreciation is: straight-line depreciation for one year = (original cost of asset – estimated salvage value) ÷ estimated number of periods in the life of the asset.*
- The advantage of using an accumulated depreciation account is that it shows the relative age of the asset, how much the asset has depreciated, and the original cost of the asset.*

SECTION 8.4 REVIEW QUESTIONS (continued)9. *This is the adjusting entry for depreciation.*

	<i>Dr</i>	<i>Cr</i>
<i>Depreciation Expense</i>	\$\$\$\$	
<i>Accumulated Depreciation (Asset name)</i>		\$\$\$\$

10. *The Canada Revenue Agency requires the declining-balance method of depreciation be used for income tax purposes.*11. *The declining-balance method of depreciation is calculated by multiplying the undepreciated cost of the asset by a fixed percentage, which is set by the government.*12. *Taxation is a challenging area of study because the rules of taxation are often complex and they change frequently.*13. *Under Canada Revenue Agency rules, one half of the cost of an asset can be used for calculating the first year's depreciation. The CRA assumes that the asset was owned for an entire year even if it was purchased mid-year.*14. *The half-year rule simplifies an accountant's work because any asset's initial depreciation amount is based on a standard 50% of its cost rather than the number of months it was owned in the first year.*15. *The half-year rule might give a business incentive to purchase long-term assets near the end of the year because they can claim an entire six months of depreciation on the asset even it was owned for only a few weeks.***SECTION 8.4 EXERCISES** (page 311)**Exercise 1, p. 311**

A.

20-1	20-2	20-3	20-4	20-5
\$3 000	\$3 000	\$3 000	\$3 000	\$3 000

B.

20-1	20-2	20-3	20-4	20-5
\$200	\$1 200	\$1 200	\$1 200	\$1 000

C.

20-1	20-2	20-3	20-4	20-5
—	\$20 160	\$30 240	\$30 240	\$30 240

SECTION 8.4 EXERCISES (continued)**Exercise 1, p. 311** (continued)**D.**

20-1	20-2	20-3	20-4	20-5
\$10 800-	\$8 640-	\$6 912-	\$5 529.60	\$4 423.68

E.

20-1	20-2	20-3	20-4	20-5
\$33 840-	\$32 486.40	\$31 186.94	\$29 939.47	\$28 741.89

F.

20-1	20-2	20-3	20-4	20-5
\$16 920-	\$33 163.20	\$31 836.67	\$30 563.21	\$29 340.68

Exercise 2, p. 312**A.**

Year	Straight-line Depreciation	
	Depreciation (\$)	Balance (\$)
		100 000
1	13 500	86 500
2	13 500	73 000
3	13 500	59 500
4	13 500	46 000
5	13 500	32 500

B.

Year	Declining-balance Depreciation	
	Depreciation (\$)	Balance (\$)
		100 000.00
1	55 000.00	45 000.00
2	24 750.00	20 250.00
3	11 137.50	9 112.50
4	5 011.88	4 100.62
5	2 255.34	1845.28

SECTION 8.4 EXERCISES (continued)**Exercise 2, p. 312** (continued)

C.

		<u>Straight-line method</u>												
		<i>Depreciation Expense</i>			13	5	0	0	–					
		<i>Accum. Depreciation—Equipment</i>								13	5	0	0	–
		<u>Declining-balance method</u>												
		<i>Depreciation Expense</i>			11	1	3	7	50					
		<i>Accum. Depreciation—Equipment</i>								11	1	3	7	50

In year three, the amount of straight-line depreciation is greater. Therefore, the net income will be lower, as will be the amount owed for income tax. Therefore, in year three, the straight-line method will save the company the most money.

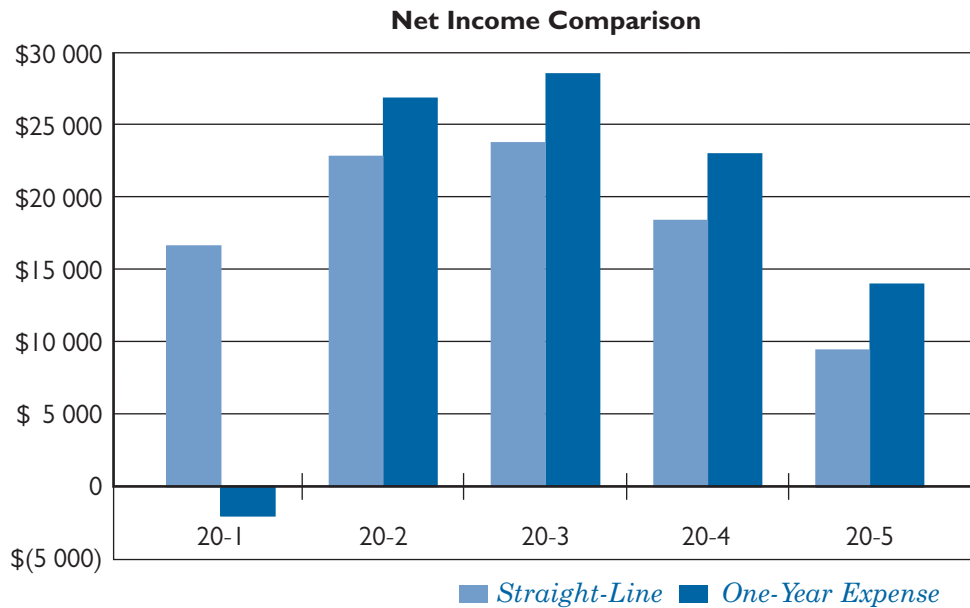
Exercise 3, p. 312

A.

	20–1	20–2	20–3	20–4	20–5
Revenues	\$57 560	\$65 250	\$68 354	\$65 270	\$59 230
Expenses					
Depreciation—Van	\$22 500	–	–	–	–
Other Expenses	\$36 750	38 256	39 954	42 570	45 320
Total Expenses	\$59 250	\$38 256	\$39 954	\$42 570	\$45 320
Net Income	\$(1 690)	\$26 994	\$28 400	\$22 700	\$13 910
Net Income (from p. 302)	\$16 310	\$22 494	\$23 900	\$18 200	\$ 9 410

SECTION 8.4 EXERCISES (continued)**Exercise 3, p. 312** (continued)

B.



- C. *The year 20-1 misrepresents net income the most dramatically. In fact, applying the entire cost of the van in 20-1 produces a net loss. The net incomes for the other years are all overstated by \$4500. The least amount of tax would be paid in 20-1 (zero).*

Exercise 4, p. 313

A.

GENERAL LEDGER					
Bank		Accounts Receivable		Supplies	
400		8 285		1 900	1 050 ①
				850	
Prepaid Insurance		Land		Buildings	
1 800	1 175 ②	50 000		70 000	
625					

SECTION 8.4 EXERCISES (continued)**Exercise 4, p. 313** (continued)**A.** (continued)

Accum. Depr.—Buildings		Equipment		Accum. Depr.—Equipment	
6 750		96 500		24 000	
<u>1 125</u> ③				<u>6 000</u> ③	
7 875				30 000	
Accounts Payable		J. Salk, Capital		J. Salk, Drawings	
3 200		144 985		30 000	
Revenue		Bank Charges Expense		Delivery Expense	
140 700		450		1 500	
Miscellaneous Expense		Telephone Expense		Utilities Expense	
490		390		1 300	
Wages Expense		Supplies Expense		Insurance Expense	
56 620		① 1 050		② 1 175	
Depreciation Expense—Buildings		Depreciation Expense—Equipment			
③ 1 125		③ 6 000			

SECTION 8.4 EXERCISES (continued)**Exercise 4, p. 313** (continued)**B.***SHAHID COMPANY**ADJUSTED TRIAL BALANCE**—DATE—*

<i>Bank</i>		4	0	0	—					
<i>Accounts Receivable</i>	8	2	8	5	—					
<i>Supplies</i>		8	5	0	—					
<i>Prepaid Insurance</i>		6	2	5	—					
<i>Land</i>	50	0	0	0	—					
<i>Buildings</i>	70	0	0	0	—					
<i>Accum. Deprec.—Buildings</i>						7	8	7	5	—
<i>Equipment</i>	96	5	0	0	—					
<i>Accum. Deprec.—Equipment</i>						30	0	0	0	—
<i>Accounts Payable</i>						3	2	0	0	—
<i>J. Salk, Capital</i>						144	9	8	5	—
<i>J. Salk, Drawings</i>	30	0	0	0	—					
<i>Revenue</i>						140	7	0	0	—
<i>Bank Charges Expense</i>		4	5	0	—					
<i>Delivery Expense</i>	1	5	0	0	—					
<i>Miscellaneous Expense</i>		4	9	0	—					
<i>Telephone Expense</i>		3	9	0	—					
<i>Utilities Expense</i>	1	3	0	0	—					
<i>Wages Expense</i>	56	6	2	0	—					
<i>Supplies Expense</i>	1	0	5	0	—					
<i>Insurance Expense</i>	1	1	7	5	—					
<i>Deprec. Expense—Buildings</i>	1	1	2	5	—					
<i>Deprec. Expense—Equipment</i>	6	0	0	0	—					
	326	7	6	0	—	326	7	6	0	—

SECTION 8.4 EXERCISES (continued)**Exercise 5, p. 314**

Year Ended December 31, 20–

Worksheet

Viera Associates

ACCOUNTS	TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Bank	5 0 8 0 20						5 0 8 0 20	
Accounts Receivable	17 4 9 1 –						17 4 9 1 –	
Supplies	2 6 3 5 –		① 1 6 0 0 –				1 0 3 5 –	
Prepaid Insurance	1 8 0 0 –		② 9 8 0 –				8 2 0 –	
Equipment	10 2 0 0 –						10 2 0 0 –	
Accum. Deprec.—Equip.		6 0 2 2 08	③ 8 3 5 58					6 8 5 7 66
Automobiles	32 5 0 0 –						32 5 0 0 –	
Accum. Deprec.—Auto.		16 5 7 5 –	④ 4 7 7 7 50					21 3 5 2 50
Accounts Payable		4 8 0 2 50						4 8 0 2 50
HST Payable		9 4 0 20						9 4 0 20
HST Recoverable	5 1 6 80						5 1 6 80	
C. Viera, Capital		21 8 2 1 04						21 8 2 1 04
C. Viera, Drawings	48 0 0 0 –						48 0 0 0 –	
Consulting Fees		154 3 2 6 –			154 3 2 6 –			
Automobile Expense	32 7 5 6 04				32 7 5 6 04			
General Expense	1 5 7 5 –				1 5 7 5 –			
Rent Expense	10 0 0 0 –				10 0 0 0 –			
Telephone Expense	1 5 6 7 –				1 5 6 7 –			
Wages Expense	40 3 6 5 78				40 3 6 5 78			
	204 4 8 6 82	204 4 8 6 82						
<i>Supplies Expense</i>			① 1 6 0 0 –		1 6 0 0 –			
<i>Insurance Expense</i>			② 9 8 0 –		9 8 0 –			
<i>Deprec.—Equipment</i>			③ 8 3 5 58		8 3 5 58			
<i>Deprec.—Automobiles</i>			④ 4 7 7 7 50		4 7 7 7 50			
			8 1 9 3 08	8 1 9 3 08	94 4 5 6 90	154 3 2 6 –	115 6 4 3 –	55 7 7 3 90
<i>Net Income</i>					59 8 6 0 10			59 8 6 9 10
					154 3 2 6 –	154 3 2 6 –	115 6 4 3 –	115 6 4 3 –

SECTION 8.4 EXERCISES (continued)**Exercise 6, p. 314**

A., B.

GENERAL JOURNAL										PAGE				
DATE	PARTICULARS	P.R.	DEBIT					CREDIT						
	<i>True declining-balance method</i>													
<i>Year 1</i>	<i>Depreciation Expense—Equipment</i>		<i>12</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>–</i>							
	<i>Accumulated Depreciation—Equipment</i>							<i>12</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>–</i>		
<i>Year 2</i>	<i>Depreciation Expense—Equipment</i>		<i>9</i>	<i>6</i>	<i>0</i>	<i>0</i>	<i>–</i>							
	<i>Accumulated Depreciation—Equipment</i>							<i>9</i>	<i>6</i>	<i>0</i>	<i>0</i>	<i>–</i>		
	<i>50% rule</i>													
<i>Year 1</i>	<i>Depreciation Expense—Equipment</i>		<i>6</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>–</i>							
	<i>Accumulated Depreciation—Equipment</i>							<i>6</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>–</i>		
<i>Year 2</i>	<i>Depreciation Expense—Equipment</i>		<i>10</i>	<i>8</i>	<i>0</i>	<i>0</i>	<i>–</i>							
	<i>Accumulated Depreciation—Equipment</i>							<i>10</i>	<i>8</i>	<i>0</i>	<i>0</i>	<i>–</i>		

SECTION 8.5 REVIEW QUESTIONS (page 320)

- The structure of the IF function is prefix FUNCTION NAME (Condition, True Response, False Response) or =IF (Condition, True Response, False Response).
- In a spreadsheet function, the data inside the brackets are called arguments.
- The commas in the IF function separate the arguments.
- The false response in an IF function will automatically show a predetermined result in the spreadsheet if a condition is not met.
- In an IF function, labels for true and false responses are entered inside quotation marks.
- If you want the true response of an IF function to be a blank cell, you must enter two quotation marks with nothing inside them: "".

SECTION 8.5 EXERCISES (page 320)**Exercise I, p. 320****A.**

AndrewsMarch.xls

Search in Sheet

Home Layout Tables Charts SmartArt Formulas Data Review

N40

	A	B	C	D	E	F	G	H	I	J	K
1											
2											
3		Andrews Landscaping	Worksheet					Three Months Ended March 31, 20-3			
4		Accounts	Trial Balance	Adjustments	Income Statement	Balance Sheet					
5			Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	
6		Bank	7 100.68						7 100.68		
7		Accounts Receivable	1 600.00						1 600.00		
8		Prepaid Insurance	1 485.00		371.25				1 113.75		
9		Supplies	1 064.21		461.86				602.35		
10		Equipment	3 898.21	912.60					4 810.81		
11		Truck	6 000.00						6 000.00		
12		Bank Loan		5 000.00						5 000.00	
13		Accounts Payable		3 468.41	1 031.24					4 499.65	
14		HST Payable		2 162.83						2 162.83	
15		HST Recoverable	573.99		118.64				692.63		
16		O. Andrews, Capital		14 969.27						14 969.27	
17		O. Andrews, Drawings	6 400.00						6 400.00		
18		Fees Earned		30 897.55			30 897.55				
19		Advertising Expense	5 531.54			5 531.54					
20		Bank Charges Expense	97.00			97.00					
21		General Expense	330.66			330.66					
22		Rent Expense	3 200.00			3 200.00					
23		Telephone Expense	289.64			289.64					
24		Utilities Expense	481.37			481.37					
25		Wages Expense	18 445.76			18 445.76					
26			56 498.06	56 498.06							
27		Supplies Expense			461.86	461.86					
28		Insurance Expense			371.25	371.25					
29						0.00	0.00		0.00	0.00	
30					1 864.35	1 864.35	29 209.08	30 897.55	28 320.22	26 631.75	
31		Net Income					1 688.47	0.00	0.00	1 688.47	
32							30 897.55	30 897.55	28 320.22	28 320.22	

Work Sheet

SECTION 8.5 EXERCISES (continued)**Exercise I, p. 320** (continued)B. *The formulas are shown in the worksheet.*

AndrewsMarch.xls

Search in Sheet

HomeLayoutTablesChartsSmartArtFormulasDataReview

Function

Audit Formulas

Calculation

Insert

AutoSum

Formula Builder

Reference

Show

A1

SAS1

Switch Reference

Insert Name

Trace Precedents

Remove Arrows

Recalculate All

Trace Dependents

Check for Errors

Recalculate Sheet

Settings

F8

A

B

C

D

E

F

G

H

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23

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25

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31

32

Andrews Landscaping

Worksheet

Three Months Ended March 31, 20-3

Accounts	Trial Balance		Adjustments		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Bank	7100.68						=C5+E5-F5	
Accounts Receivable	1600						=C6+E6-F6	
Prepaid Insurance	1485			=C7*3/12			=C7+E7-F7	
Supplies	1064.21			=C8-602.35			=C8+E8-F8	
Equipment	3898.21		912.6				=C9+E9-F9	
Truck	6000						=C10+E10-F10	
Bank Loan		5000						=D11-E11+F11
Accounts Payable		3468.41		1031.24				=D12-E12+F12
HST Payable		2162.83						=D13-E13+F13
HST Recoverable	573.99		118.64				=C14+E14-F14	
O. Andrews, Capital		14969.27						=D15-E15+F15
O. Andrews, Drawings	6400						=C16+E16-F16	
Fees Earned		30897.55				=D17-E17+F17		
Advertising Expense	5531.54				=C18+E18-F18			
Bank Charges Expense	97				=C19+E19-F19			
General Expense	330.66				=C20+E20-F20			
Rent Expense	3200				=C21+E21-F21			
Telephone Expense	289.64				=C22+E22-F22			
Utilities Expense	481.37				=C23+E23-F23			
Wages Expense	18445.76				=C24+E24-F24			
	=SUM(C5:C24)	=SUM(D5:D24)						
Supplies Expense			=F8		=C26+E26-F26			
Insurance Expense			=F7		=C27+E27-F27			
					=C28+E28-F28	=D28-E28+F28	=C28+E28-F28	=D28-E28+F28
			=SUM(E5:E28)	=SUM(F5:F28)	=SUM(G5:G28)	=SUM(H5:H28)	=SUM(I5:I28)	=SUM(J5:J28)
=IF(H29>G29,"Net Income","Net Loss")					=IF(H29>G29,H29-G29,0)	=IF(G29>H29,G29-H29,0)	=H30	=G30
					=G29+G30	=H29+H30	=I29+I30	=J29+J30

Worksheet

SECTION 8.5 EXERCISES (continued)**Exercise I, p. 320** (continued)

B. (continued)

AndrewsMarch.xls						
Search in Sheet						
Home Layout Tables Charts SmartArt Formulas Data Review						
J26						
	A	B	C	D	E	F
1			Andrews Landscaping			
2			Income Statement			
3			Three Months Ended March 31, 20-3			
4						
5			Revenue			
6			Fees Earned	\$	30 897.55	
7			Operating Expenses			
8			Advertising Expense	\$	5 531.54	
9			Bank Charges Expense		97.00	
10			General Expense		330.66	
11			Rent Expense		3 200.00	
12			Telephone Expense		289.64	
13			Utilities Expense		481.37	
14			Wages Expense		18 445.76	
15			Supplies Expense		461.86	
16			Insurance Expense		371.25	
17			Total Expenses		29 209.08	
18			Net Income		\$ 1 688.47	
19						

SECTION 8.5 EXERCISES (continued)**Exercise I, p. 320** (continued)

B. (continued)

AndrewsMarch.xls									
Search in Sheet									
Home Layout Tables Charts SmartArt Formulas Data Review									
I40									
A	B	C	D	E	F	G	H	I	J
1		Andrews Landscaping							
2		Balance Sheet							
3		March 31, 20-3							
4	ASSETS								
5	<i>Current Assets</i>								
6	Bank			\$	7 100.68				
7	Accounts Receivable				1 600.00				
8	Prepaid Insurance				1 113.75				
9	Supplies				602.35				
10	Total Current Assets					\$	10 416.78		
11	<i>Long-Term Assets</i>								
12	Equipment			\$	4 810.81				
13	Truck				6 000.00				
14	Total Long-Term Assets						10 810.81		
15	Total Assets					\$	21 227.59		
16									
17	LIABILITIES								
18	<i>Current Liabilities</i>								
19	Bank Loan					\$	5 000.00		
20	Accounts Payable						4 499.65		
21	HST Payable			\$	2 162.83				
22	HST Recoverable				(692.63)				
23	HST Owed						1 470.20		
24	Total Current Liabilities					\$	10 969.85		
25									
26	OWNER'S EQUITY								
27	Opening Balance			\$	14 969.27				
28	Net Income	\$	1 688.47						
29	Less: Drawings		(6 400.00)						
30	Decrease in Capital				(4 711.53)				
31	Ending Balance						10 257.74		
32	Total Liabilities and Equity					\$	21 227.59		
33									

SECTION 8.5 SPREADSHEET EXTENSIONS (page 320)

The formula for a flexible label in the income statement at cell B18 is:

=IF(E18>=0,"Net Income","Net Loss").

	A	B	C	D	E	F
1			Andrews Landscaping			
2			Income Statement			
3			Three Months Ended March 31, 20-3			
4						
5		Revenue				
6		Fees Earned		\$	28 897.55	
7		Operating Expenses				
8		Advertising Expense	\$	5 531.54		
9		Bank Charges Expense		97.00		
10		General Expense		330.66		
11		Rent Expense		3 200.00		
12		Telephone Expense		289.64		
13		Utilities Expense		481.37		
14		Wages Expense		18 445.76		
15		Supplies Expense		461.86		
16		Insurance Expense		371.25		
17		Total Expenses			29 209.08	
18		Net Loss		\$	(311.53)	
19						

The formulas for the equity section of the balance sheet.

	A	B	C	D	E	F	G
26							
27		OWNER'S EQUITY					
28		Opening Balance			=Worksheet!J15		
29		=Income Statement!B18	=Income Statement!E18				
30		Less: Drawings	=Worksheet!I16*1				
31		=IF(E31>=0,"Increase in Capital","Decrease in Capital")			=C29+C30		
32		Ending Balance				=E28+E31	
33		Total Liabilities and Equity				=G25+G32	
34							

SECTION 8.5 SPREADSHEET EXTENSIONS (continued)

AndrewsMarch.xls						
Search in Sheet						
Home	Layout	Tables	Charts	SmartArt	Formulas	Data
Review						
K37						
A	B	C	D	E	F	G
1		Andrews Landscaping				
2		Balance Sheet				
3		March 31, 20-3				
4	ASSETS					
5	<i>Current Assets</i>					
6	Bank		\$	7 100.68		
7	Accounts Receivable			1 600.00		
8	Prepaid Insurance			1 113.75		
9	Supplies			602.35		
10	Total Current Assets				\$	10 416.78
11	<i>Long-Term Assets</i>					
12	Equipment		\$	4 810.81		
13	Truck			6 000.00		
14	Total Long-Term Assets					10 810.81
15	Total Assets				\$	21 227.59
16						
17	LIABILITIES					
18	<i>Current Liabilities</i>					
19	Bank Loan				\$	5 000.00
20	Accounts Payable					4 499.65
21	Unearned Revenue					2 000.00
22	HST Payable		\$	2 162.83		
23	HST Recoverable			692.63		
24	HST Owed					1 470.20
25	Total Current Liabilities				\$	12 969.85
26						
27	OWNER'S EQUITY					
28	Opening Balance		\$	14 969.27		
29	Net Loss	\$	(311.53)			
30	Less: Drawings		(6 400.00)			
31	Decrease in Capital			(6 711.53)		
32	Ending Balance					8 257.74
33	Total Liabilities and Equity				\$	21 227.59
34						

CHAPTER 8 REVIEW EXERCISES (continued)**Exercise 3, p. 322**

Prepaid Insurance			Insurance Expense		
	Mar. 1, 20-1	2 400			
C.	Dec. 31, 20-1	<u> </u>	2 000	Dec. 31, 20-1	<u>2 000</u>
D.		400			2 000
	Mar. 1, 20-2	1 800		Dec. 31, 20-1	<u> </u>
	Sep. 1, 20-2	1 440			0
	Nov. 1, 20-2	<u>1 200</u>			
	Dec. 31, 20-2	4 840			
G.	Dec. 31, 20-2	<u> </u>	2 580	Dec. 31, 20-2	<u>2 580</u>
	Dec. 31, 20-2	2 260			2 580

A. $\$2400 \times 2 \div 12 = \400

The prepaid insurance at December 31, 20-1 is \$400.

B. $\$2400 \times 10 \div 12 = \2000

The insurance expense for the fiscal year 20-1 is \$2000.

C. *This is the adjusting journal entry for insurance used in 20-1,*

	Dr	Cr
Insurance Expense	\$2 000	
Prepaid Insurance		\$2 000

D. $\$400 + \$1800 + 1440 + \$1200 = \4840

The balance in the Prepaid Insurance account at the end of 20-2, before any adjusting entry, is \$4840.

E. $\$1800 \times 2 \div 12 = \300 $\$1440 \times 8 \div 12 = \960 $\$1200 \times 10 \div 12 = \1000

$\$300 + \$960 + \$1000 = \2260

The value of the prepaid insurance at the end of 20-2 is \$2260.

F. $\$4840 - \$2260 = \$2580$

The insurance expense for 20-2 is \$2580.

G. *This is the adjusting journal entry for insurance used in 20-2,*

	Dr	Cr
Insurance Expense	\$2 580	
Prepaid Insurance		\$2 580

H. *Change the focus from unused portions (assets) to used portions (expenses).*

National: $\$2400 \times 2 \div 12 = \400 $\$1800 \times 10 \div 12 = \1500

Regal: $\$1440 \times 4 \div 12 = \480

Standard: $\$1200 \times 2 \div 12 = \200

Total: $\$400 + \$1500 + \$480 + \$200 = \$2580$

The insurance expense for 20-2 is \$2580.

CHAPTER 8 REVIEW EXERCISES (continued)**Exercise 4, p. 323**

A.

J. Soo and Associates				Worksheet				Year Ended Dec. 31, 20–5			
ACCOUNTS	TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET				
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr			
Bank	5 1 6 0 –						5 1 6 0 –				
Accounts Receivable	8 5 0 0 –						8 5 0 0 –				
Supplies	1 9 5 0 –			① 1 3 1 0 –			6 4 0 –				
Prepaid Insurance	6 2 4 –			② 3 6 4 –			2 6 0 –				
Equipment	9 2 0 0 –						9 2 0 0 –				
Automobile	18 3 5 0 –						18 3 5 0 –				
Accounts Payable		5 9 2 0 –		④ 1 1 5 –				6 0 3 5 –			
HST Payable								3 1 0 –			
HST Recoverable	3 4 0 –						3 4 0 –				
J. Soo, Capital		36 6 6 2 –						36 6 6 2 –			
J. Soo, Drawings	7 5 0 0 –						7 5 0 0 –				
Commissions		35 6 5 0 –	③ 3 0 0 0 –			32 6 5 0 –					
Car Expense	3 2 1 4 –		④ 5 0 –		3 2 6 4 –						
Miscellaneous Expense	9 0 2 –		④ 6 5 –		9 6 7 –						
Rent Expense	6 0 0 0 –				6 0 0 0 –						
Utilities Expense	1 5 6 3 –				1 5 6 3 –						
Wages Expense	15 2 3 9 –				15 2 3 9 –						
	78 5 4 2 –	78 5 4 2 –									
Supplies Expense			① 1 3 1 0 –		1 3 1 0 –						
Insurance Expense			② 3 6 4 –		3 6 4 –						
Unearned Revenue				③ 3 0 0 0 –				③ 3 0 0 0 –			
			4 7 8 9 –	4 7 8 9 –	28 7 0 7 –	32 6 5 0 –	49 9 5 0 –	46 0 0 7 –			
Net Income					3 9 4 3 –			3 9 4 3 –			
					32 6 5 0 –	32 6 5 0 –	49 9 5 0 –	49 9 5 0 –			

CHAPTER 8 REVIEW EXERCISES (continued)**Exercise 4, p. 323** (continued)

B.

GENERAL JOURNAL

PAGE

DATE	PARTICULARS	P.R.	DEBIT	CREDIT
²⁰⁻⁵ Dec. 31	<i>Supplies Expense</i>		1 3 1 0 –	
	<i>Supplies</i>			1 3 1 0 –
31	<i>Insurance Expense</i>		3 6 4 –	
	<i>Prepaid Insurance</i>			3 6 4 –
31	<i>Commissions</i>		3 0 0 0 –	
	<i>Unearned Revenue</i>			3 0 0 0 –
31	<i>Car Expense</i>		5 0 –	
	<i>Miscellaneous Expense</i>		6 5 –	
	<i>Accounts Payable</i>			1 1 5 –

C.

GENERAL LEDGER

Bank <hr/> 5 160	Accounts Receivable <hr/> 8 500	Supplies <hr/> 1 950 1 310 ① 640	Prepaid Insurance <hr/> 624 364 ② 260
Equipment <hr/> 9 200	Automobile <hr/> 18 350	Accounts Payable <hr/> 5 920 115 ③ 6 035	Unearned Revenue <hr/> 3 000 ③ 3 000
HST Payable <hr/> 310	HST Recoverable <hr/> 340	J. Soo, Capital <hr/> 36 662	J. Soo, Drawings <hr/> 7 500

CHAPTER 8 REVIEW EXERCISES (continued)**Exercise 4, p. 323** (continued)

C. (continued)

Commissions	Car Expense	Miscellaneous Expense	Rent Expense
③ 3 000	3 214	902	6 000
35 650	③ 50	③ 65	
32 650	3 264	967	
Utilities Expense	Wages Expense	Supplies Expense	Insurance Expense
1 563	15 239	① 1 310	③ 364

*J. SOO AND ASSOCIATES**ADJUSTED TRIAL BALANCE**DECEMBER 31, 20–5*

Bank	5	1	6	0	–					
Accounts Receivable	8	5	0	0	–					
Supplies		6	4	0	–					
Prepaid Insurance		2	6	0	–					
Equipment	9	2	0	0	–					
Automobile	18	3	5	0	–					
Accounts Payable						6	0	3	5	–
Unearned Revenue						3	0	0	0	–
HST Payable							3	1	0	–
HST Recoverable		3	4	0	–					
J. Soo, Capital						36	6	6	2	–
J. Soo, Drawings	7	5	0	0	–					
Commissions						32	6	5	0	–
Car Expense	3	2	6	4	–					
Miscellaneous Expense		9	6	7	–					
Rent Expense	6	0	0	0	–					
Utilities Expense	1	5	6	3	–					
Wages Expense	15	2	3	9	–					
Supplies Expense	1	3	1	0	–					
Insurance Expense		3	6	4	–					
	78	6	5	7	–	78	6	5	7	–

CHAPTER 8 REVIEW EXERCISES (continued)**Exercise 5, p. 324**

Karen Millette Real Estate				Worksheet				Year Ended Sep. 30, 20–4			
ACCOUNTS	TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET				
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr			
Bank	3 8 0 0 –						3 8 0 0 –				
Accounts Receivable	10 9 0 0 –						10 9 0 0 –				
Supplies	5 0 0 –			① 3 0 0 –			2 0 0 –				
Prepaid Insurance	1 0 0 0 –			② 7 0 0 –			3 0 0 –				
Land	50 0 0 0 –						50 0 0 0 –				
Building	70 0 0 0 –						70 0 0 0 –				
Acc. Dep.—Building		6 7 7 8 –		③ 2 5 2 9 –				9 3 0 7 –			
Furniture and Equipment	15 0 0 0 –						15 0 0 0 –				
Acc. Dep.—Furn. & Equip.		6 3 6 0 –		④ 1 7 2 8 –				8 0 8 8 –			
Automotive Equipment	17 0 0 0 –						17 0 0 0 –				
Acc. Dep.—Auto. Equip.		7 2 0 8 –		⑤ 1 9 5 8 –				9 1 6 6 –			
Accounts Payable		2 4 0 0 –						2 4 0 0 –			
Bank Loan		60 0 0 0 –						60 0 0 0 –			
HST Payable		4 1 0 0 –						4 1 0 0 –			
HST Recoverable	7 5 1 –						7 5 1 –				
Karen Millette, Capital		87 2 0 5 –						87 2 0 5 –			
Karen Millette, Drawings	30 0 0 0 –						30 0 0 0 –				
Commissions Revenue		99 6 0 0 –				99 6 0 0 –					
Advertising Expense	4 7 0 0 –				4 7 0 0 –						
Bank Charges	8 1 0 0 –				8 1 0 0 –						
Car Expense	8 0 0 0 –				8 0 0 0 –						
Commissions Expense	18 0 0 0 –				18 0 0 0 –						
Miscellaneous Expense	2 0 0 –				2 0 0 –						
Office Expense	6 0 0 –				6 0 0 –						

CHAPTER 8 REVIEW EXERCISES (continued)**Exercise 6, p. 324**

Year Ended Oct. 31, 20–5

Worksheet

Tom's Plastering

ACCOUNTS	TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Bank	1 4 1 2 01						1 4 1 2 01	
Accounts Receivable	7 5 4 5 –						7 5 4 5 –	
Supplies	1 4 1 6 70		① 5 6 20	② 1 1 1 2 90			3 6 0 –	
Small Tools	1 9 0 3 –			⑤ 1 5 5 3 –			3 5 0 –	
Prepaid Insurance	2 1 0 7 80			③ 1 5 9 6 85			5 1 0 95	
Equipment	9 5 0 0 –						9 5 0 0 –	
Accum. Dep.—Equipment		3 2 0 0 –		④ 8 0 0 –				4 0 0 0 –
Truck	19 5 0 0 –						19 5 0 0 –	
Accum. Dep.—Truck		8 0 0 0 –		④ 3 2 0 0 –				11 2 0 0 –
Accounts Payable		2 4 0 7 35		① 6 4 6 90				3 0 5 4 25
HST Payable		7 0 2 –						7 0 2 –
HST Recoverable	4 8 0 –						4 8 0 –	
Bank Loan		10 0 0 0 –						10 0 0 0 –
Tom Michaud, Capital		17 5 1 0 28						17 5 1 0 28
Tom Michaud, Drawings	35 5 3 4 –						35 5 3 4 –	
Revenue		120 3 6 5 –				120 3 6 5 –		
Bank Interest and Charges	1 3 2 5 15				1 3 2 5 15			
Materials Used	25 3 6 9 20			⑥ 2 8 5 0 –	22 5 1 9 20			
Miscellaneous Expense	7 5 6 32		① 2 6 85		7 8 3 17			
Rent Expense	6 0 0 0 –				6 0 0 0 –			
Telephone Expense	8 6 4 32				8 6 4 32			
Truck Expense	8 3 2 5 40		① 5 6 3 85		8 8 9 25			
Utilities Expense	4 5 6 3 26				4 5 6 3 26			
Wages Expense	35 5 8 2 47				35 5 8 2 47			
	162 1 8 4 63	162 1 8 4 63						

CHAPTER 8 REVIEW EXERCISES (continued)**Exercise 6, p. 324** (continued)*TOM'S PLASTERING**BALANCE SHEET**OCTOBER 31, 20–5*

ASSETS																			
<i>Current Assets</i>																			
<i>Bank</i>																			
<i>Accounts Receivable</i>																			
<i>Supplies</i>																			
<i>Small Tools</i>																			
<i>Prepaid Insurance</i>																			
<i>Materials</i>																			
<i>Total Current Assets</i>																			
<i>Long-Term Assets</i>																			
<i>Equipment</i>																			
<i>Less: Acc. Deprec.—Equipment</i>																			
<i>Truck</i>																			
<i>Less: Acc. Deprec.—Truck</i>																			
<i>Total Long-Term Assets</i>																			
<i>Total Assets</i>																			
LIABILITIES																			
<i>Accounts Payable</i>																			
<i>HST Payable</i>																			
<i>Less: HST Recoverable</i>																			
<i>HST Owed</i>																			
<i>Bank Loan</i>																			
<i>Total Liabilities</i>																			
OWNER'S EQUITY																			
<i>Tom Michaud, Capital</i>																			
<i>Balance October 1</i>																			
<i>Net Income</i>																			
<i>Less: Drawings</i>																			
<i>Decrease in Capital</i>																			
<i>Balance October 31</i>																			
<i>Total Liabilities and Equity</i>																			

CHAPTER 8 REVIEW EXERCISES (continued)**Exercise 7, p. 326**

A.

Oakville Journal	ACCOUNTS	Worksheet				Year Ended December 31, 20–8			
		TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET	
		Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
	Bank	2 0 0 0 –						2 0 0 0 –	
	Accounts Receivable	15 3 1 7 20						15 3 1 7 20	
	Supplies and Materials	23 7 9 5 16		① 5 0 9 60	② 16 2 9 1 20			8 0 1 3 56	
	Prepaid Insurance	4 2 0 0 –			③ 2 8 7 5 –			1 3 2 5 –	
	Land	775 0 0 0 –						775 0 0 0 –	
	Buildings	630 0 0 0 –						630 0 0 0 –	
	Acc. Dep.—Buildings		45 0 0 0 –		⑤ 1 5 0 0 0 –				60 0 0 0 –
	Equipment	95 7 0 0 –						95 7 0 0 –	
	Acc. Dep.—Equipment		25 7 1 0 –		⑤ 7 5 7 0 –				30 2 8 0 –
	Automotive Equipment	75 3 2 5 –						75 3 2 5 –	
	Acc. Dep.—Auto. Equip.		30 0 0 0 –		⑤ 10 0 0 0 –				40 0 0 0 –
	Accounts Payable		9 2 1 6 42		① 1 4 9 0 80				10 7 0 7 22
	HST Payable		1 2 8 0 –						1 2 8 0 –
	HST Recoverable	7 5 0 –						7 5 0 –	
	Bank Loan		100 0 0 0 –						100 0 0 0 –
	Mortgage Payable		660 0 0 0 –						660 0 0 0 –
	R. Lucht, Capital		729 4 4 8 91						729 4 4 8 91
	R. Lucht, Drawings	50 0 0 0 –						50 0 0 0 –	
	Revenue—Advertising		218 9 4 6 –	④ 8 9 0 3 –			210 0 4 3 –		
	Revenue—Circulation		91 3 1 5 –				91 3 1 5 –		
	Bank Int. & Charges Exp.	12 1 5 0 –				12 1 5 0 –			
	Building Maintenance Expense	3 2 2 0 –				3 2 2 0 –			
	Car Expense	4 9 6 0 50		① 2 0 0 –		5 1 6 0 50			
	Miscellaneous Expense	5 9 4 0 13		① 3 5 –		2 9 7 5 13			
	Mortgage Interest Expense	36 3 0 0 –				36 3 0 0 –			
	Office Expense	1 2 4 0 –				1 2 4 0 –			
	Office Salaries Expense	34 3 1 9 15				34 3 1 9 15			
	Sales Promotions Expense	2 7 5 0 –				2 7 5 0 –			

CHAPTER 8 REVIEW EXERCISES (continued)**Exercise 7, p. 326** (continued)**B.***OAKVILLE JOURNAL**INCOME STATEMENT**YEAR ENDED DECEMBER 31, 20–8*

<i>REVENUE</i>										
<i>Advertising</i>	\$210	0	4	3	–					
<i>Circulation</i>	91	3	1	5	–					
<i>Total Revenue</i>						\$301	3	5	8	–
<i>EXPENSES</i>										
<i>Bank Interest and Charges Expense</i>	\$ 12	1	5	0	–					
<i>Building Maintenance Expense</i>	3	2	2	0	–					
<i>Car Expense</i>	5	1	6	0	50					
<i>Miscellaneous Expense</i>	5	9	7	5	13					
<i>Mortgage Interest Expense</i>	36	3	0	0	–					
<i>Office Expense</i>	1	2	4	0	–					
<i>Office Salaries Expense</i>	34	3	1	9	15					
<i>Sales Promotions Expense</i>	2	7	5	0	–					
<i>Telephone Expense</i>	2	9	4	6	–					
<i>Truck Expense</i>	28	0	8	0	39					
<i>Utilities Expense</i>	11	3	5	0	–					
<i>Wages Expense</i>	94	3	1	9	–					
<i>Supplies and Materials Expense</i>	16	2	9	1	20					
<i>Insurance Expense</i>	2	8	7	5	–					
<i>Depreciation—Buildings</i>	15	0	0	0	–					
<i>Depreciation—Equipment</i>	7	5	7	0	–					
<i>Depreciation—Automobile Equipment</i>	10	0	0	0	–					
<i>Total Expenses</i>						288	5	4	6	37
<i>NET INCOME</i>						\$ 12	8	1	1	63

CHAPTER 8 REVIEW EXERCISES (continued)**Exercise 7, p. 326** (continued)

B. (continued)

*OAKVILLE JOURNAL**BALANCE SHEET**DECEMBER 31, 20–8*

ASSETS																			
<i>Current Assets</i>																			
<i>Bank</i>																			
<i>Accounts Receivable</i>																			
<i>Supplies and Materials</i>																			
<i>Prepaid Insurance</i>																			
<i>Total Current Assets</i>																			
<i>Long-Term Assets</i>																			
<i>Land</i>																			
<i>Buildings</i>	\$630	0	0	0	–														
<i>Less: Accumulated Depreciation</i>	60	0	0	0	–														
<i>Equipment</i>	\$ 95	7	0	0	–														
<i>Less: Accumulated Depreciation</i>	30	2	8	0	–														
<i>Automotive Equipment</i>	\$ 75	3	2	5	–														
<i>Less: Accumulated Depreciation</i>	40	0	0	0	–														
<i>Total Long-Term Assets</i>																			
<i>Total Assets</i>																			
LIABILITIES																			
<i>Current Liabilities</i>																			
<i>Accounts Payable</i>																			
<i>HST Payable</i>	\$ 1	2	8	0	–														
<i>Less: HST Recoverable</i>		7	5	0	–														
<i>HST Owed</i>																			
<i>Unearned Revenue—Advertising</i>																			
<i>Bank Loan</i>																			
<i>Total Current Liabilities</i>																			
<i>Long-Term Liabilities</i>																			
<i>Mortgage Payable</i>																			
<i>Total Liabilities</i>																			

CHAPTER 8 REVIEW EXERCISES (continued)**Exercise 7, p. 326** (continued)**B.** (continued)

<i>OWNER'S EQUITY</i>															
<i>R. Lucht, Capital</i>															
<i>Balance December 1</i>						\$729	4	4	8	91					
<i>Net Income</i>	\$	12	8	1	1	63									
<i>Less: Drawings</i>		50	0	0	0	—									
<i>Decrease in Capital</i>							(37	1	8	8	37)				
<i>Balance December 31</i>												692	2	6	0 54
<i>Total Liabilities and Equity</i>												\$1472	4	0	0 76

C.**GENERAL JOURNAL****PAGE**

DATE	PARTICULARS	P.R.	DEBIT	CREDIT
	<i>Adjusting Entries</i>			
²⁰⁻⁸ Dec. 31	<i>Supplies and Materials</i>		5 0 9 60	
	<i>Car Expense</i>		2 0 0 —	
	<i>Miscellaneous Expense</i>		3 5 —	
	<i>Truck Expense</i>		7 4 6 20	
	<i>Accounts Payable</i>			1 4 9 0 80
31	<i>Supplies and Materials Expense</i>		16 2 9 1 20	
	<i>Supplies and Materials</i>			16 2 9 1 20
31	<i>Insurance Expense</i>		2 8 7 5 —	
	<i>Prepaid Insurance</i>			2 8 7 5 —
31	<i>Revenue—Advertising</i>		8 9 0 3 —	
	<i>Unearned Revenue—Advertising</i>			8 9 0 3 —
31	<i>Depreciation—Buildings</i>		15 0 0 0 —	
	<i>Accum. Dep.—Buildings</i>			15 0 0 0 —
31	<i>Depreciation—Equipment</i>		7 5 7 0 —	
	<i>Accum. Dep.—Equipment</i>			7 5 7 0 —
31	<i>Depreciation—Automotive Equipment</i>		10 0 0 0 —	
	<i>Accum. Dep.—Automotive Equipment</i>			10 0 0 0 —

CHAPTER 8 REVIEW EXERCISES (continued)**Exercise 7, p. 326** (continued)

C. (continued)

GENERAL JOURNAL**PAGE**

DATE	PARTICULARS	P.R.	DEBIT					CREDIT				
	<i>Closing Entries</i>											
²⁰⁻⁸ Dec. 31	Revenue—Advertising		210	0	4	3	–					
	Revenue—Circulation		91	3	1	5	–					
	Income Summary							301	3	5	8	–
	31 Income Summary		288	5	4	6	37					
	Bank Interest and Charges Expense							12	1	5	0	–
	Building Maintenance Expense							3	2	2	0	–
	Car Expense							5	1	6	0	50
	Miscellaneous Expense							5	9	7	5	13
	Mortgage Interest Expense							36	3	0	0	–
	Office Expense							1	2	4	0	–
	Office Salaries Expense							34	3	1	9	15
	Sales Promotion Expense							2	7	5	0	–
	Telephone Expense							2	9	4	6	–
	Truck Expense							27	0	8	0	39
	Utilities Expense							11	3	5	0	–
	Wages Expense							94	3	1	9	–
	Supplies and Materials Expense							16	2	9	1	20
	Insurance Expense							2	8	7	5	–
	Depreciation—Building							15	0	0	0	–
	Depreciation—Equipment							7	5	7	0	–
	Depreciation—Automotive Equipment							10	0	0	0	–
	31 Income Summary		12	8	1	1	63					
	R. Lucht, Capital							12	8	1	1	63
	31 R. Lucht, Capital		50	0	0	0	–					
	R. Lucht, Drawings							50	0	0	0	–

CHAPTER 8 REVIEW EXERCISES (continued)**Exercise 7, p. 326** (continued)**D.****GENERAL LEDGER**

Bank <hr/> 2 000 <hr/>	Accounts Receivable <hr/> 15 317.20 <hr/>	Supplies & Materials <hr/> 23 795.16 ① 509.60 8013.56 <hr/> 16 291.20 ②
Prepaid Insurance <hr/> 4 200 2 875 ③ 1 325 <hr/>	Land <hr/> 775 000 <hr/>	Buildings <hr/> 630 000 <hr/>
Accum. Dep.—Buildings <hr/> 45 000 15 000 ④ 60 000 <hr/>	Equipment <hr/> 95 700 <hr/>	Accum. Dep.—Equipment <hr/> 22 710 7 570 ⑤ 30 280 <hr/>
Automotive Equipment <hr/> 75 325 <hr/>	Accum. Dep.—Auto. Equip. <hr/> 30 000 10 000 ⑤ 40 000 <hr/>	Unearned Revenue <hr/> 8 903 ④ <hr/>
Accounts Payable <hr/> 9 216.42 1 490.80 ① 10 707.22 <hr/>	HST Payable <hr/> 1 280 <hr/>	HST Recoverable <hr/> 750 <hr/>
Bank Loan <hr/> 100 000 <hr/>	Mortgage Payable <hr/> 660 000 <hr/>	R. Lucht, Capital <hr/> 50 000 729 448.91 12 811.63 692 260.54 <hr/>
R. Lucht, Drawings <hr/> 50 000 50 000 <hr/> 0	Revenue—Advertising <hr/> 48 903 218 946 210 043 <hr/> 0	Revenue—Circulation <hr/> 91 315 91 315 <hr/> 0

CHAPTER 8 REVIEW EXERCISES (continued)**Exercise 7, p. 326** (continued)

D. (continued)

Bank Interest & Charges <hr/> <div>12 150</div> <div><u>12 150</u></div> <div>0</div>	Building Maintenance Expense <hr/> <div>3 220</div> <div><u>3 220</u></div> <div>0</div>	Car Expense <hr/> <div>4 960.50</div> <div><u>200.00</u></div> <div>5 160.50</div> <div>0</div>
Miscellaneous Expense <hr/> <div>5 940.13</div> <div><u>35.00</u></div> <div>5 975.13</div> <div>0</div>	Mortgage Interest Expense <hr/> <div>36 300</div> <div><u>36 300</u></div> <div>0</div>	Office Salaries Expense <hr/> <div>34 319.15</div> <div><u>34 319.15</u></div> <div>0</div>
Office Expense <hr/> <div>1 240</div> <div><u>1 240</u></div> <div>0</div>	Sales Promotion Expense <hr/> <div>2 750</div> <div><u>2 750</u></div> <div>0</div>	Telephone Expense <hr/> <div>2 946</div> <div><u>2 946</u></div> <div>0</div>
Truck Expense <hr/> <div>26 334.19</div> <div><u>746.20</u></div> <div>27 080.39</div> <div>0</div>	Utilities Expense <hr/> <div>11 350</div> <div><u>11 350</u></div> <div>0</div>	Wages Expense <hr/> <div>94 319</div> <div><u>94 319</u></div> <div>0</div>
Depreciation Expense—Buildings <hr/> <div>⑤ 15 000</div> <div><u>15 000</u></div> <div>0</div>	Depreciation Expense—Equipment <hr/> <div>⑤ 7 570</div> <div><u>7 570</u></div> <div>0</div>	Depreciation Expense—Automotive Equipment <hr/> <div>⑤ 10 000</div> <div><u>10 000</u></div> <div>0</div>
Supplies and Materials Expense <hr/> <div>② 16 291.20</div> <div><u>16 291.20</u></div> <div>0</div>	Insurance Expense <hr/> <div>③ 2 875</div> <div><u>2 875</u></div> <div>0</div>	Income Summary <hr/> <div>288 546.37</div> <div><u>12 811.63</u></div> <div>301 358.00</div> <div>0</div>

CHAPTER 8 REVIEW EXERCISES (continued)**Exercise 8, p. 327****GENERAL JOURNAL****PAGE**

DATE	PARTICULARS	P.R.	DEBIT	CREDIT
	<i>Closing Entries</i>			
²⁰⁻ Nov. 30	Revenue		1 8 0 0 -	
	Income Summary			1 8 0 0 -
30	Income Summary		1 1 5 0 -	
	General Expense			5 0 -
	Utilities Expense			1 0 0 -
	Wages Expense			1 0 0 0 -
30	Income Summary		6 5 0 -	
	O. Como, Capital			6 5 0 -
30	O. Como, Capital		5 0 0 -	
	O. Como, Drawings			5 0 -

Questions for Further Thought, p. 328

- The time period concept pertains more to the income statement than to the balance sheet because the income statement covers a period of financial activity while the balance sheet shows financial position for only one day. The time period concept is necessary to ensure that income statements from different periods and companies use the same unit of time (usually a year) so they can be compared in a meaningful way. Balance sheets can always be compared because they are always for one day.*
- The Bank account is ongoing or continuous in nature because there is activity in the Bank account every business day. The activities of the business are always increasing or decreasing the balance in the account. There is never a time, except by sheer coincidence, that the Bank balance becomes zero like the nominal accounts of the business.*
- The owner's Capital account is not a nominal account. Its balance is updated at the end of a fiscal period by the net income or net loss and drawings but this new balance will continue into the next fiscal period. It is not cleared out.*

CHAPTER 8 REVIEW EXERCISES (continued)**Questions for Further Thought, p. 328** (continued)

4. *If the nominal accounts were not cleared out at the end of the fiscal period, the entries for the new period would be added on to the old balances in the accounts. The account balances would soon become meaningless. Revenues on the first day of a fiscal year, for example, would be huge because the balance would include amounts from the previous years.*
5. *After the accounts are updated and closed out at the end of an accounting period, the account balances will remain accurate for various lengths of time. Accounts for services that are billed monthly, such as Rent Expense or Telephone Expense, may remain accurate for weeks if the bills come in at the end of the month. Supplies, if used daily, would be inexact on the first business day.*
6. *Experienced users of financial data will simply add net income and subtract drawings if they want to know the current, true balance of the capital account.*
7. *The best first step towards balancing a post-closing trial balance that does not balance is to compare the post-closing trial balance figures with the just-completed balance sheet.*
8. *During the first years of an asset's life, the declining-balance method of depreciation is more beneficial to a business than the straight-line method. The Canada Revenue Agency allows businesses to use the declining-balance method because it is an incentive for businesses to invest in long-term assets. The method allows businesses to claim more depreciation expense in the early years, resulting in lower net income and thus lower initial tax bills. The lower tax bills reduce the impact that equipment purchases have on the Bank account.*
9. *The owner is not correct in his assumption that lower amounts of depreciation expense in later years of an asset's life will free up funds to pay for repairs and maintenance expenses. Depreciation is a non-cash expense. The cash is spent at or near the time of an asset's purchase. After the asset is bought, there are no cheques written for depreciation. Depreciation is simply a mathematical calculation used to calculate net income in a theoretically accurate manner.*

CASE STUDIES (page 329)**Case I** A Balancing Act (p. 329)

1. *To quickly tell which figure or figures on the post-closing trial balance are probably incorrect, compare the post-closing trial balance figures with those in the balance sheet.*
2. *The Owner's Equity figure in the post-closing trial balance is incorrect.*

CASE STUDIES (continued)**Case 1** A Balancing Act (continued)

3. *The error Piran made was to treat the net loss the same as net income. When Piran closed the Income Summary account, his entry debited Income Summary and credited Owner's Equity, as if the amount he was clearing was a debit. Instead, he should have debited Owner's Equity and credited Income Summary. The error is easy to spot once you notice that the amount of the error, \$1752, is double the amount of the net loss, \$876.*

Case 2 A Mix-Up in Year-End Accounting (p. 330)

1. *Alicia can tell if something is wrong with the figures on the list of adjusting and closing entries by comparing them to figures on the statements or in the ledger.*
2. *No, the list of adjusting and closing entries is not correct. The figures on the list do not correspond with the statements or the ledger.*
3. *Yes, the list supplied is related to the Academy of Music. The account titles match the business's accounts and the owner's name, F. Oke, on the accounts is correct.*
4. *The most likely explanation for the error is that Alicia supplied the company with last year's list of adjusting and closing entries.*
- 5., 6.

GENERAL JOURNAL**PAGE**

DATE	PARTICULARS	P.R.	DEBIT				CREDIT			
	<i>Adjusting Entries</i>									
	<i>Supplies Used</i>		6	5	0	–				
	<i>Supplies</i>						6	5	0	–
	<i>Insurance Used</i>		1	4	2	0	–			
	<i>Prepaid Insurance</i>						1	4	2	0
	<i>Car Expense</i>		5	1	5	–				
	<i>Utilities Expense</i>		1	5	0	–				
	<i>Telephone Expense</i>		5	0	–					
	<i>Accounts Payable</i>						7	1	5	–

CASE STUDIES (continued)**Case 2** A Mix-Up in Year-End Accounting (continued)

5., 6. (continued)

GENERAL JOURNAL**PAGE**

DATE	PARTICULARS	P.R.	DEBIT					CREDIT				
	<i>Closing Entries</i>											
	<i>Fees Earned</i>		95	3	0	0	–					
	<i>Income Summary</i>							95	3	0	0	–
	<i>Income Summary</i>		57	4	9	4	–					
	<i>Bank Charges Expense</i>								1	0	2	–
	<i>Car Expense</i>							16	2	2	2	–
	<i>Utilities Expense</i>							3	8	2	5	–
	<i>Miscellaneous Expense</i>							3	7	0		–
	<i>Rent Expense</i>							6	0	0	0	–
	<i>Telephone Expense</i>							5	0	0		–
	<i>Wages Expense</i>							78	3	7	5	–
	<i>Supplies Used</i>							6	5	0		–
	<i>Insurance Used</i>							1	4	2	0	–
	<i>Income Summary</i>		37	8	3	6	–					
	<i>F. Oke, Capital</i>							37	8	3	6	–
	<i>F. Oke, Capital</i>		27	0	0	0	–					
	<i>F. Oke, Drawings</i>							27	0	0	0	–

CASE STUDIES (continued)**Case 3: Challenge** Can You Meet This Deadline? (p. 333)

The key to solving this case study is to reconstruct the worksheet. First, enter the pre-adjustment trial balance and income statement figures. The remaining figures can be filled in by deduction and reasoning. Once the worksheet is balanced, all the data for the balance sheet and adjusting entries will be obtained.

CASE STUDIES (continued)**Case 3: Challenge** *Can You Meet This Deadline?* (continued)

Six Months Ended June 30, 20–

Worksheet

Stetsko and Company

ACCOUNTS	TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Bank	4 1 7 2 50						4 1 7 2 50	
Accounts Receivable	27 4 2 1 –						27 4 2 1 –	
Supplies	1 3 6 5 –			9 5 5 –			4 1 0 –	
Prepaid Insurance	2 2 8 0 –			1 5 8 0 –			7 0 0 –	
Furniture and Equipment	12 5 9 6 –						12 5 9 6 –	
Accum. Dep.—Furn. & Equip.		2 5 0 0 –		5 0 0 –				3 0 0 0 –
Automotive Equipment	24 8 0 0 –						24 8 0 0 –	
Accum. Dep.—Auto. Equip.		6 5 0 0 –		1 2 5 0 –				7 7 5 0 –
Accounts Payable		6 5 2 1 92		6 5 0 –				7 1 7 1 92
Bank Loan		20 0 0 0 –						20 0 0 0 –
Sales Tax Payable		5 6 0 –						5 6 0 –
I. Stetsko, Capital		25 5 5 8 20						25 5 5 8 20
I. Stetsko, Drawings	15 0 0 0 –						15 0 0 0 –	
Sales		58 0 7 2 50			58 0 7 2 50			
Bank Charges Expense	1 1 3 2 10				1 1 3 2 10			
Automotive Expense	4 5 4 7 52		4 5 0 –		4 9 9 7 52			
Miscellaneous Expense	7 6 1 50		9 0 –		8 5 1 50			
Rent Expense	2 6 0 0 –				2 6 0 0 –			
Telephone Expense	1 7 1 2 –		1 1 0 –		1 8 2 2 –			
Wages Expense	21 3 2 5 –				21 3 2 5 –			
	119 7 1 2 62	119 7 1 2 62						
<i>Dep. Exp.—Furn. & Equip.</i>			5 0 0 –		5 0 0 –			
<i>Dep. Exp.—Auto. Equip.</i>			1 2 5 0 –		1 2 5 0 –			
<i>Supplies Expense</i>			9 5 5 –		9 5 5 –			
<i>Insurance Expense</i>			1 5 8 0 –		1 5 8 0 –			
			4 9 3 5 –	4 9 3 5 –	37 0 1 3 12	58 0 7 2 50	85 0 9 9 50	64 0 4 0 12
<i>Net Income</i>					21 0 5 9 38			21 0 5 9 38
					58 0 7 2 50	58 0 7 2 50	82 0 9 9 50	85 0 9 9 50

CASE STUDIES (continued)**Case 3: Challenge** *Can You Meet This Deadline?* (continued)**STETSKO AND COMPANY****BALANCE SHEET****JUNE 30, 20–**

ASSETS																			
<i>Current Assets</i>																			
<i>Bank</i>																			
<i>Accounts Receivable</i>																			
<i>Supplies</i>																			
<i>Prepaid Insurance</i>																			
<i>Total Current Assets</i>																			
<i>Long-Term Assets</i>																			
<i>Furniture and Equipment</i>																			
<i>Less: Accum. Dep.—Furniture and Equip.</i>																			
<i>Automotive Equipment</i>																			
<i>Less: Accum. Dep.—Automobile Equip.</i>																			
<i>Total Long-Term Assets</i>																			
<i>Total Assets</i>																			
LIABILITIES																			
<i>Accounts Payable</i>																			
<i>Bank Loan</i>																			
<i>Sales Tax Payable</i>																			
<i>Total Liabilities</i>																			
OWNER'S EQUITY																			
<i>I. Stetsko, Capital</i>																			
<i>Balance June 1</i>																			
<i>Net Income</i>																			
<i>Less: Drawings</i>																			
<i>Increase in Capital</i>																			
<i>Balance June 30</i>																			
<i>Total Liabilities and Equity</i>																			

CASE STUDIES (continued)**Case 4: Co-operative Learning** A Better Way of Depreciating a Truck? (p. 334)

1.

Year	Distance Travelled (km)	Declining-balance Depreciation (\$)	Distance-used Depreciation (\$)
20-1	21 468	9 450.00	2 546.96
20-2	35 698	6 615.00	4 235.21
20-3	42 654	4 630.50	5 060.47
20-4	45 965	3 241.35	5 453.29
20-5	40 365	2 268.80	4 788.90
20-6	35 632	1 588.16	4 227.38
20-7	27 526	1 111.71	3 265.68
20-8	16 201	778.19	1 922.09
Total	265 509	29 683.21	31 499.98

2. *The distance-used method results in a more even yearly depreciation expense and a larger total depreciation expense than the declining-balance method. Once you add in the salvage value of the truck when it was sold, the distance-used method is a more accurate way to account for the truck's depreciation value. However, if we switch to the distance-used method, we will still have to use the declining-balance method for our financial statements because it is approved by the Canada Revenue Agency. We recommend staying with the declining-balance method for this reason.*

CAREER

Nitasha Ragnauth/Manager, Audit and Assurance Services, McGovern, Hurley, Cunningham, LLP, Toronto (page 335)

Discussion (p. 336)

- Nitasha became interested in accounting in third-year university when she saw that CA's had many career opportunities.*
- Nitasha has worked in the insurance, energy, automotive, consumer products, and mining industries.*
- An example of the work performed by an external auditor is going to a company's operations, such as a mine, and assessing the value of the property and the company's right to the minerals or ore.*
- Nitasha decided to take the required accounting courses in first and second year, even though she had not thought of going into accounting. This gave her the option of getting a CA designation after graduation.*